

**REPORT OF THE AUDIT OF THE
MARTIN COUNTY
SHERIFF'S SETTLEMENT - 2009 TAXES**

**For The Period
July 31, 2009 Through May 15, 2010**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
MARTIN COUNTY
SHERIFF'S SETTLEMENT - 2009 TAXES**

**For The Period
July 31, 2009 Through May 15, 2010**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2009 Taxes for the Martin County Sheriff for the period July 31, 2009 through May 15, 2010. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$4,598,049 for the districts for 2009 taxes, retaining commissions of \$177,470 to operate the Sheriff's office. The Sheriff distributed taxes of \$4,409,088 to the districts for 2009 taxes. Taxes of \$7,459 are due to the districts from the Sheriff and refunds of \$2,562 are due to the Sheriff from the taxing districts.

Report Comments:

2009-01	The Sheriff's Office Lacks Adequate Segregation Of Duties
2009-02	The Sheriff Should Improve Internal Controls Over Tax Collections
2009-03	The Sheriff Should Process Franchise Tax Collections Timely

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities as of May 15, 2010, however, deposits were exposed to custodial credit risk as follows on January 8, 2010:

- Uncollateralized and Uninsured \$62,499

The Sheriff's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Lori H. Flanery, Secretary

Finance and Administration Cabinet

Honorable Kelly Callaham, Martin County Judge/Executive

Honorable Garmon Preece, Martin County Sheriff

Members of the Martin County Fiscal Court

Independent Auditor's Report

We have audited the Martin County Sheriff's Settlement - 2009 Taxes for the period July 31, 2009 through May 15, 2010. This tax settlement is the responsibility of the Martin County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Martin County Sheriff's taxes charged, credited, and paid for the period July 31, 2009 through May 15, 2010, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated April 4, 2011 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky
Honorable Steven L. Beshear, Governor
Lori H. Flanery, Secretary
Finance and Administration Cabinet
Honorable Kelly Callaham, Martin County Judge/Executive
Honorable Garmon Preece, Martin County Sheriff
Members of the Martin County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discuss the following report comments:

- 2009-01 The Sheriff's Office Lacks Adequate Segregation Of Duties
- 2009-02 The Sheriff Should Improve Internal Controls Over Tax Collections
- 2009-03 The Sheriff Should Process Franchise Tax Collections Timely

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

April 4, 2011

MARTIN COUNTY
GARMON PREECE, SHERIFF
Sheriff's Settlement - 2009 Taxes

For The Period July 31, 2009 Through May 15, 2010

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 211,508	\$ 338,469	\$ 1,011,810	\$ 233,376
Tangible Personal Property	166,642	325,342	691,302	602,127
Franchise Taxes	81,383	152,997	346,904	
Prior Year Franchise Taxes	29,736	46,299	132,723	
Additional Billings	500	521	2,394	550
Oil and Gas Property Taxes	209,484	305,733	1,002,125	230,244
Penalties	3,771	5,794	18,020	4,209
Adjusted to Sheriff's Receipt	(196)	2,803	(951)	(217)
Gross Chargeable to Sheriff	702,828	1,177,958	3,204,327	1,070,289
<u>Credits</u>				
Exonerations	2,298	3,524	10,992	2,526
Discounts	7,759	12,913	35,685	14,066
Delinquents:				
Real Estate	23,021	36,162	110,127	25,302
Tangible Personal Property	46,258	90,311	191,897	179,141
Oil and Gas	21,760	31,758	104,095	23,916
Uncollected Franchises	82,148	143,292	358,402	
Total Credits	183,244	317,960	811,198	244,951
Taxes Collected	519,584	859,998	2,393,129	825,338
Less: Commissions *	22,082	36,551	83,760	35,077
Taxes Due	497,502	823,447	2,309,369	790,261
Taxes Paid	496,911	815,421	2,307,047	789,709
Refunds (Current and Prior Year)	886	1,100	3,743	865
Due District or (Refunds Due Sheriff) as of Completion of Audit	\$ (295)	\$ 6,926	\$ (1,421)	\$ (313)

**

* and ** See next page.

The accompanying notes are an integral part of this financial statement.

MARTIN COUNTY
GARMON PREECE, SHERIFF
SHERIFF'S SETTLEMENT - 2009 TAXES
For The Period July 31, 2009 Through May 15, 2010
(Continued)

* Commissions:

4.25% on	\$	2,204,920
3.5% on	\$	2,393,129

** Special Taxing Districts:

Library District	\$	(330)
Health District		7,459
Extension District		<u>(203)</u>
Due District or (Refunds Due Sheriff)	\$	<u><u>6,926</u></u>

MARTIN COUNTY
NOTES TO FINANCIAL STATEMENT

May 15, 2010

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Martin County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

MARTIN COUNTY
 NOTES TO FINANCIAL STATEMENT
 May 15, 2010
 (Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of May 15, 2010, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of January 8, 2010, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured \$62,499

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2009. Property taxes were billed to finance governmental services for the year ended June 30, 2010. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 30, 2009 through May 15, 2010.

Note 4. Interest Income

The Martin County Sheriff earned \$720 as interest income on 2009 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the Sheriff's office.

Note 5. Sheriff's 10% Add-On Fee

The Martin County Sheriff collected \$25,279 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the Sheriff's office.

Note 6. Unrefundable Duplicate Payments And Unexplained Receipts

The Sheriff deposited unrefundable duplicate payments and unexplained receipts in interest-bearing accounts. The Sheriff's escrowed amounts were as follows:

2009	\$2,362
2008	\$1,455
2007	\$1,498

KRS 393.090 states that after three years, if the funds have not been claimed, they are presumed abandoned and abandoned funds are required to be sent to the Kentucky State Treasurer by KRS 393.110. The Sheriff should send a written report to the Treasury Department in accordance with KRS 393.110.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Kelly Callaham, Martin County Judge/Executive
Honorable Garmon Preece, Martin County Sheriff
Members of the Martin County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Martin County Sheriff's Settlement - 2009 Taxes for the period July 31, 2009 through May 15, 2010, and have issued our report thereon dated April 4, 2011. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Martin County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying comments and recommendations, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying comments and recommendations as items 2009-01, 2009-02, and 2009-03 to be material weaknesses.



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Martin County Sheriff's Settlement - 2009 Taxes for the period July 31, 2009 through May 15, 2010, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations as items 2009-02 and 2009-03.

The Martin County Sheriff's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the Sheriff's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Martin County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', written in a cursive style.

Crit Luallen
Auditor of Public Accounts

April 4, 2011

COMMENTS AND RECOMMENDATIONS

MARTIN COUNTY
GARMON PREECE, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Period July 31, 2009 Through May 15, 2010

FINANCIAL STATEMENT FINDINGS:

2009-01 The Sheriff's Office Lacks Adequate Segregation Of Duties

The Sheriff's office has a lack of proper segregation of duties. The bookkeeper prepares all daily checkout sheets, prepares and signs all checks, maintains the receipts and disbursements ledgers and reconciles the bank accounts. Good internal controls dictate that the same employee should not handle, record, and process financial information. The Sheriff should segregate these duties or strengthen internal controls by routinely reviewing daily checkout procedures for accuracy, review the bank reconciliations, and ensure that all information posted to the financial statement is complete and accurate.

Sheriff's Response: We will initiate procedures to strengthen controls.

2009-02 The Sheriff Should Improve Internal Controls Over Tax Collections

KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. Under this authority, the State Local Finance Officer requires deposits be made intact on a daily basis. The practice of making daily deposits reduces the risk of misappropriation or theft. Cash is the asset most subject to theft. Not making daily deposits places funds at unnecessary risk of misappropriation. Any cash or checks left in the office overnight should be secured in a safe to reduce the risk of misappropriation or theft. Furthermore, making deposits intact on a daily basis is an internal control procedure to help prevent or detect misstatements on a timely basis. If deposits are not made intact, on a daily basis, the internal control procedures will not operate as designed. The Sheriff did not consistently deposit tax receipts on a daily basis and did not utilize a safe to secure undeposited receipts overnight. As a result, \$3,173 in tax funds were found missing. Subsequently, the Sheriff replaced the missing tax funds with personal funds. We recommend the Sheriff improve controls over tax collections to assure deposits are made intact daily and that any undeposited funds be secured overnight in a safe.

Sheriff's Response: Some measures have already been put into affect such as locking all checks and cash in safe. We will comply.

MARTIN COUNTY
GARMON PREECE, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Period July 31, 2009 Through May 15, 2010
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2009-03 The Sheriff Should Process Franchise Tax Collections Timely

We noted several deficiencies related to franchise tax collections. These deficiencies in the controls and processes over franchise taxes put these funds at an increased risk of loss or theft. A review of franchise tax collections found the following:

- One check for \$797 dated August 4, 2010 was received by the Sheriff's office but had not been deposited as of March 21, 2011. The taxpayer for that check has voided the check because it did not clear the bank within 6 months. The taxpayer will reissue new franchise tax payments.
- Two payments from one franchise taxpayer in the amounts of \$15,429 and \$8,981 which were mailed to the Sheriff's office on June 17, 2010 for which the Sheriff's office has no record of having received. The taxpayer has voided those checks and will reissue new franchise tax payments.
- One check for \$100,919 dated July 8, 2010 was not batched and deposited until September 29, 2010, approximately 58 working days from the date of the check.
- Franchise taxes collected during July and August 2010 were subsequently paid to the districts during October 2010.
- Unpaid franchise tax bills were not turned over to the county clerk as delinquent. Instead they are held by the Sheriff for an indefinite period

Under the authority of KRS 68.210 the State Local Finance Officer requires all collections be batched and deposited daily. KRS 134.191 requires the Sheriff to report, by the tenth of each month, all taxes collected during the prior month, including franchise taxes. KRS 134.191 also states, at the time of making the report, the Sheriff shall pay taxes to the districts and allows for a penalty of 1% for each thirty day period or fraction thereof that the payment is not made. If a franchise tax bill remains unpaid when the sheriff is ready to turn other tax bills over to the county clerk, the unpaid franchise tax bill should be turned over to the county clerk as delinquent along with the other tax bills. A certificate of delinquency should be prepared in the same manner as all other county tax bills. Most franchise tax bills are considered delinquent if the taxpayer has not paid within 30 days, but the time period becomes 90 days for telecommunication franchise tax bills.

We recommend the Sheriff improve internal control procedures related to franchise tax collections by assuring franchise tax collections are batched and deposited upon receipt and distributed by the tenth day of the following month. We also recommend unpaid franchise tax bills be turned over to the County Clerk as delinquent.

Sheriff's Response: We will batch and deposit all franchise receipts daily. We will turn over all delinquent franchise bills with regular tax bills.

